



Monthly Economic Update

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This report is an update to the Quarterly Economic Indicators Report, both of which are available on the internet @ <http://www.montgomerycountymd.gov/finance>. For questions, please call (240) 777-8866.

➤ **Current Economic Conditions.** The latest round of economic indicators suggests that the national economy continues to grow but with declining payroll employment. Since the recovery began in November 2001, GDP increased 2.7 percent while the economy shed almost 1.5 million jobs making this recovery the first of its kind in that payroll employment declined at this stage of the recovery period. Nonresidential construction picked up during the second quarter of 2003, and the stock market continued to maintain significant growth with the NASDAQ increasing almost 40 percent since March.

Even though the regional economy continued to grow during the summer following a depressed fall and winter, the County's economy experienced mixed results. Compared to the first seven months of last year, the level of construction activity in the County declined. Housing prices, on the other hand, continued to accelerate reaching a \$376,400 average in July. Retail sales rebounded significantly in July (7.1%) over last year with utilities (+9.6%), building supplies (+7.5%), and automotive (+7.5%) leading the rebound. The County's unemployment rate (2.6%) is the lowest in the State and remains well below the State's average (4.7%).

➤ **Nonresidential Construction.** During the January through July period, the value of construction starts for non-residential property in the County declined 62 percent compared to the same period last year. The amount of additional space also declined dramatically this year compared to last year. Over the seven-month period, only 348,000 ft² of office space was added to the County's inventory – a decline of 54 percent over

the same period last year. The significant decline in the addition of new office space has helped reduce the vacancy rate from a high of 10.2 percent last summer to 9.5 percent in June of this year. While such a decrease reduces excess capacity, the tradeoff is that the decline will also impact growth in the County's property tax base. Rather than adding to the current assessable property tax base, some, if not all, of the construction activity may be replacing old structures. As such, there may be little, if any, growth in the commercial property tax base attributed to additional capacity. Any growth in the County's assessable property tax base, therefore, must come from reassessments, residential construction, or both.

➤ **Residential Construction and Home Sales.** During the first seven months of this year, the value of residential construction declined 18.2 percent over the same period last year. The effects of the decline are twofold: 1) the value of additional residential construction added to the County's property tax base does not offset the reduction of new non-residential construction, and 2) construction is not keeping up with demand.

Sales of existing homes in the County jumped 23 percent in July over July 2002, which was the largest year-over-year increase since February 2001. Because of expectations that mortgage interest rates would increase, many potential home buyers decided to lock in the June rates thereby completing the purchase in July rather than later creating the one-month spike in home sales. According to the Mortgage Bankers Association, mortgage refinancings nationwide have fallen 80 percent since their peak in May and are also expected to fall 80 percent in 2004.

SELECTED ECONOMIC INDICATORS	Reporting Period	Current Period	Prior Year's Period	Year To-Date		2002
				2003	2002	
Leading Indicators						
National	July	0.4%		-0.4%		-0.2%
Washington MSA	June	0.0%		-0.1%		-0.6%
Coincident Indicators						
National	July	0.1%		0.3%		0.7%
Washington MSA	June	2.4%		-4.5%		-0.7%
Consumer Confidence Index						
National	Aug	5.6%		0.0%		-14.7%
South Atlantic Region	Aug	1.9%		-22.1%		-9.6%
Consumer Sentiment (University of Michigan)	Aug	-0.8%		-6.6%		-2.4%
Consumer Price Index						
All Items						
National	July	2.1%		2.4%		1.6%
Washington - Baltimore CMSA	July	3.0%		3.1%		2.4%
Core CPI						
National	July	1.5%		1.6%		2.4%
Washington - Baltimore CMSA	July	2.8%		2.7%		2.9%
Retail Trade						
National (sales - nsa)	July	6.5%		5.0%		3.1%
Washington MSA (sales - nsa)	June	4.2%		5.5%		3.0%
Maryland (sales tax)	July	4.9%		1.1%		1.6%
Montgomery County (sales tax)	July	7.1%		2.6%		0.9%
Employment						
National (household data - nsa)	Aug	138,137,000	137,295,000	137,402,750	136,201,375	136,485,000
- Percent Change		0.6%		0.9%		-0.3%
Washington PMSA (household data - nsa)	July	2,820,428	2,778,351	2,754,994	2,716,523	2,719,777
- Percent Change		1.5%		1.4%		3.7%
Montgomery County (resident)	July	502,039	499,156	493,465	487,686	489,673
- Percent Change		0.6%		1.2%		2.5%
Montgomery County (payroll)**	December ('02)	458,357	458,664	453,145	449,853	453,145
- Percent Change		-0.1%		0.7%		0.7%
Unemployment						
National (nsa)	Aug	6.0%	5.7%	6.2%	5.9%	5.8%
Maryland (nsa)	July	4.7%	4.4%	4.5%	4.5%	4.4%
Washington PMSA	July	3.5%	3.7%	3.6%	3.8%	3.7%
Montgomery County	July	2.6%	2.8%	2.6%	2.9%	2.8%
Construction						
Construction Starts - Montgomery County						
Total (\$ thousand)	July	\$114,581	\$118,035	\$559,793	\$1,015,238	\$1,595,801
- Percent Change		-2.9%		-44.9%		9.5%
Residential (\$ thousand)	July	\$82,459	\$49,449	\$318,176	\$388,844	\$744,066
- Percent Change		66.8%		-18.2%		-4.2%
Non-Residential (\$ thousand)	July	\$32,122	\$68,586	\$241,617	\$626,394	\$851,735
- Percent Change		-53.2%		-61.4%		25.0%
Building Permits (Residential)						
National	July	165,662	157,340	1,068,139	1,008,100	1,747,678
- Percent Change		5.3%		6.0%		6.8%
Maryland	July	2,180	2,517	16,960	16,852	29,293
- Percent Change		-13.4%		0.6%		0.8%
Montgomery County	July	284	469	2,236	2,625	5,013
- Percent Change		-39.4%		-14.8%		-1.5%
Building Permits (Non-Residential)						
Montgomery County	Aug	231	148	1,263	1,276	1,858
- Percent Change		56.1%		-1.0%		-11.6%
Real Estate						
National						
Sales	July	6,120,000	5,380,000	5,890,000	5,580,000	5,566,000
- Percent Change		13.8%		5.6%		5.1%
Median Price	July	\$182,100	\$162,400	\$167,300	\$155,300	\$158,100
- Percent Change		12.1%		7.7%		7.0%
Montgomery County						
Sales	July	1,860	1,513	9,191	8,732	16,030
- Percent Change		22.9%		5.3%		3.1%
Average Price	July	\$376,381	\$324,025	\$352,117	\$310,323	\$320,418
- Percent Change		16.2%		13.5%		16.5%
Median Price	July	\$314,900	\$261,000	\$282,986	\$243,421	\$255,275
- Percent Change		20.7%		16.3%		18.7%
Average Days on the Market	July	22	19	29	26	25

NOTE: **Data for Year-To-Date columns five and six are for entire calendar years 2002 and 2001, respectively.
nsa=Not Seasonally Adjusted